

Service Date: July 29, 1986

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of The Application)
Of MONTANA PO~ER COMPANY for) UTILITY DIVISION
Authority To Implement An Electric) DOCKET NO. 86.6.29
Economic Incentive Rate) ORDER NO. 5215

INTERIM ORDER

FINDINGS OF FACT

1. On June 13, 1986, Montana Power Company (MPC) filed with the Montana Public Service Commission (PSC) an application for authority to implement an Electric Economic Incentive (EEI) Rate.

2. As originally filed, MPC's EEI rate features certain objectives and constraints. MPC's stated objective is to absorb a short-term energy surplus by means of developing new loads that would not otherwise develop. MPC's principal constraint is that the EEI must benefit all of the Company's Montana customers. Certain specific constraints and/or objectives are evident from a reading of the proposed EEI tariff and the Company's data responses to the PSC's initial discovery.

3. In summary of the following discussion, the PSC approves on an interim basis the EEI filing. The PSC's interim approval is conditional on an understanding of certain aspects of the filing, not evident from a reading of the EEI filing, but gathered, in part, from the MPC's data responses to the PSC's initial round of discovery. These conditions, or

concerns, are discussed in detail below.

4. The forum in which MPC's EEI filing will receive final action and in which intervenors may raise their concerns is unknown at present. In addition to this docket, there exists several other outstanding dockets involving MPC's electric operation including MPC's request to revise the availability language on the Electric Contract tariff (Docket No. 85.11.49), the Montana Refining Company Complaint (Docket No. 85.12.50), and the Electric Industrial Retention/Interruptible Rate (EIRI) for Stauffer Chemical Company (Docket No. 85.9.40). Also, the Company's EEI filing impacts the level of certain recently tariffed electric avoided cost prices out of Docket No. 84.10.64. One forum in which issues in these interrelated and outstanding dockets may be addressed is MPC's upcoming electric cost of service and rate design filing, expected to be filed later in this year.

Interim Conditions

5. Based on MPC's responses to initial discovery compared to the Company's original filing, there are certain aspects, or conditions, not explicitly addressed in the filing, that will be featured in contracts. First, based on a data response (1-13i), the PSC expects EEI contracts to be generally interruptible; one exception is 28 MWS of Montana Resources Inc. (MRI) load. The precise interruptible conditions are apparently tailored to each specific customer's needs (DR 1-13i,ii).

6. A second aspect of MPC's initial filing suggests a logical error in the design of the EEI rate (see DR 1-3i.ii). Specifically, when one reads pages four and five of the MPC filing there appears two inconsistent bases for the maximum

EEI rates for energy and capacity. On page four the maximum value is stated in explicit dollar terms; however, on page five the maximum value is tied to the otherwise applicable Electric Contract (EC) rate. Herein lies MPC's apparent logic error. For example, the current EC summer price for capacity is less than the minimum basis for the EEI capacity price: the maximum price is less than the minimum price. In the future, a similar relation could evolve with the EEI energy price. As MPC's data response was not particularly lucid in this regard, the Commission finds necessary a formal interpretation of MPC's intent: Whenever the maximum value falls below the otherwise applicable minimum value, the minimum is unchanged from the minimum value set forth on page four (4) of the Company's EEI tariff filing. For example, at present the minimum EEI capacity price equals \$3.456/kw and not \$2.66/kw from the EC tariff.

7. The Commission finds necessary an interim provision to reflect a concern that the EEI filing not be a vehicle by which regular retail customers subsidize EEI load development. In fact, as discussed below, MPC would not appear averse to the provision. The provision the Commission finds must be included in this interim order arises out of the constraint, apparently shared by the Commission and MPC, that the EEI filing accrue net benefits to all of MPC's Montana customers. A potential situation then is for the actual off-system sales market to have a value (per kwh) in excess of the average revenues (per kwh) from an EEI customer. In such a situation, it appears to the Commission that all MPC's Montana customers would benefit by more if the power sold to the EEI customer had been sold off system.

8. MPC's position on this issue is as follows:

Q:ii. Would not a relevant floor price in a given

time period be based on the greater of (1) MPC's short-term production costs per Mr. Tom Looms' testimony and (2) the value at which off system opportunity sales could be made in the same time period?

A: Yes, except that a) generally MPC will sell only at a price at least one or two mills/kwh above short-run production costs if the alternative is to take a thermal unit off line, and b) the floor price is more likely to be driven by the assumption for off-system sales incorporated in the MPSC rate order than by the projections of "realistic" market price.

Q:vi. Would the Company be averse to ii above being the basis of minimum EEI energy prices? If so, how would the Company propose the two criteria be measured?

A: The Company would be averse to the Item ii basis for setting minimum EEI energy prices if either the value of off-system sales or the short-run ~ production costs (plus an appropriate one or two mill/kwh adder), whichever is used, is less than the imputed off-system sales price. (Data Response Nos. 1-12ii and 1-12vi)

9. The Commission finds whenever the average revenues (per kwh) that could have been achieved from off-system sales exceed the actual revenues (per kwh) from an EEI customer's load, MPC's shareholders must make full compensation to all MPC's Montana electric retail customers. For example, if MPC could have sold off-system a kwh for 3.5c/kwh and MPC's Montana Resources Inc. load paid MPC only 2.5c/kwh, then the other MPC electric customers will have their revenue requirement reduced by the 1c/kwh differential. Moreover, based on MPC's narrative (paragraph X1 in Mr. Steve Winter's July 14, 1986, letter) and a data response (No. 1-20), the risk to the Company's investors would appear minimal. Finally, this provision of insuring net benefits flow to all

Montana customers based on differentials in off-system opportunity costs and average EEI revenues (per EEI customer), and the concern that MPC's investors absorb a percent (e.g., 10 percent) of the difference between the applicable retail rate and the EEI rate (per customer) will be revisited in a final decision in this or a future consolidated docket.

CONCLUSIONS OF LAW

1. The Applicant, Montana Power Company, furnishes electric service to consumers in Montana, and is a "public utility" subject to the regulatory jurisdiction of the Montana Public Service Commission. Section 69-3-304, MCA.
2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.
3. The Commission may, in its discretion, temporarily approve increases or decreases pending a hearing or final decision. Section 69-3-304, MCA.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION HEREBY ORDERS THAT:

1. MPC must file with the Commission each and every EEI contract as consummated with customers.
2. The Commission approves, on an interim basis, MPC's EEI filing conditional upon a mutual agreement and understanding of the Findings of Fact entered by the Commission in this Interim Order.

DONE IN OPEN SESSION at Helena, Montana this 21st day of
July, 1986, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Trenna Scoffield
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.